

JACKSON DISTRICT LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Jackson District Library
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities of the *Jackson District Library, Jackson, Michigan* as of and for the year ended December 31, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Trustees
Jackson District Library
Jackson, Michigan

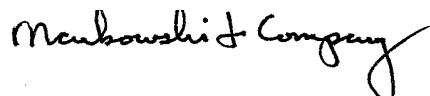
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Jackson District Library of Jackson, Michigan, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson District Library of Jackson, Michigan's financial statements as a whole. The statement of activities-detail in the other information is presented for purposes of additional analysis and is not a required part of the financial statements. The statement of activities-detail is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Jackson, Michigan
April 16, 2013

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2012.

Financial Highlights

- The Library assets at the close of December 31, 2012, exceeded its liabilities by \$7,672,907 (net position). Of this amount, unrestricted net position of \$4,292,775 may be used to meet the Library's ongoing obligations.
- The total net position of the Library increased by \$776,409 during the year.
- At the close of the current fiscal year, the Library's governmental fund reported a combined ending fund balance of \$5,443,732, an increase of \$307,585. Approximately 97%, or \$5,263,003, of the fund balance is available for spending at the Library's discretion. Of this amount, 41%, or \$2,180,905, has been assigned by the Library's board for specific uses including building upgrades and expansion, technology, and other board plans.

Overview of Financial Statements

This audit report consists of the independent auditor's report, management discussion and analysis, basic financial statements, required supplementary information and additional information.

The basic financial statements comprise government-wide financial statements and fund financial statements focusing on the Library in more detail. The financial statements also contain notes to explain some of the information in the statements and provide more detailed data.

Government-Wide Financial Statements

The government-wide statements provide information to readers with a broad overview of the Library's finances, similar to the private business sector. The statement of net position includes information on all of the Library's assets and liabilities, with differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation and sick leave.

Management's Discussion and Analysis

Government-Wide Financial Statements (Continued)

In a condensed format, the following shows the net position and changes to net position as of December 31, 2012 and 2011:

	Governmental Activities	
	2012	2011
Assets	\$ 14,101,070	\$ 13,305,331
Liabilities	\$ 6,428,163	\$ 6,408,833
Net Position		
Invested in Capital Assets, net	3,212,773	2,623,667
Restricted	167,359	171,260
Unrestricted	4,292,775	4,101,571
Total Net Position	\$ 7,672,907	\$ 6,896,498
Revenues		
Property taxes	\$ 5,152,782	\$ 5,293,107
State shared revenues	71,766	75,457
Charges for services	242,678	221,721
Penal fines	624,113	271,794
Investment income	16,599	23,644
Contributions and grants	271,676	58,678
USF phone refunds	23,895	14,447
Other refunds	6,593	3,895
	\$ 6,410,102	\$ 5,962,743
Expenditures		
Culture and recreation	5,633,693	5,404,512
Change in Net Position	\$ 776,409	\$ 558,231

Fund Financial Statements

The fund financial statements provide more detailed information that is used to help maintain control over the Library's resources. Like other state and local governments, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Management's Discussion and Analysis

Financial Analysis

As noted earlier, net position may serve as a useful indicator of the Library's financial position. As viewed in the Statement of Net Position, assets exceeded liabilities by \$7,672,907 and total net position increased by \$776,409 during the year.

Capital Asset and Long-Term Debt Activity

The Library's investment in capital assets as of December 31, 2012, amounted to \$3,212,773 (net of accumulated depreciation). This investment in capital assets includes property, equipment and books and related materials.

Major capital asset events during the fiscal year included the following:

- \$418,040 was invested in improvements to Library branch buildings.
- \$707,743 was invested in books and related Library materials.
- \$134,343 was invested in computer equipment upgrades.
- \$23,152 was invested in library furniture and equipment upgrades.

Funding Issues

The Library collected \$5,152,782 in property taxes in 2012; this reflected a decrease of \$140,325 from 2011. This decline was caused primarily by continued declines in property values and the elimination of renaissance zone reimbursements from the state of Michigan. It is pertinent to note that the Library's collections from property taxes have declined a staggering \$531,094 from 2009 when collections amounted to \$5,683,876. We are encouraged that Jackson County officials are now projecting that property values will finally stabilize in 2013. However, we remain concerned that foreclosures could continue to directly affect the Library if the taxes are uncollectable after public auction; the County may call a charge back of taxes for those properties if the proceeds do not cover the amount due for the foreclosed parcels.

Another new trend is the alarming increase in property tax refunds that the Library is being asked to refund to large entities who appealed their property tax assessments to the Michigan Tax Tribunal. To illustrate, the Library refunded \$45,808 in 2012, a 54% increase over refunds of \$29,719 in 2011.

JDL also faces uncertainty with the elimination of the Personal Property Tax. In 2012, the Personal Property Tax component of JDL's revenues comprised \$485,291 or approximately 9.5% of the Library's total property tax receipts. We are anxiously awaiting the outcome of the public vote in 2014 after which the reimbursement mechanism approved by the state legislature will become clearer. Historically low interest rates have also resulted in sharp declines in our investment income.

Due to continued advocacy by the Michigan Library Association, state aid for public libraries has shown a modest increase in the past two years and we remain hopeful that the recent cuts to renaissance zone reimbursements will be fully restored by the state in 2014. In view of an unexpected increase in penal fine revenue collections in 2012, the Library was able to mitigate some of the losses from property tax declines.

Management's Discussion and Analysis

Funding Issues (Continued)

The Library's Board of Trustees has taken several steps to address the issue of retiree health insurance under new guidelines as set forth by the Government Accounting Standards Board (GASB). Currently, new employees hired will not be eligible for retiree health care. Current employees who retire from the Jackson District Library must be age 60 or older with 12 or more years of service to receive the added benefit of retiree health insurance. The board will only contribute toward the cost of health care coverage a percent amount equal to that which it makes on behalf of active employees. Due to the extremely large funding projections for meeting these obligations, the Library only funded 80% of the 2012 recommended annual required contribution, but continues to benefit from earnings on the pre-funding.

Health insurance expense continues to be a concern for the Library as well. We were able to mitigate most of these increases by creating premium contribution and opt-out incentives for regular employees, adding retiree contributions, adding a lower cost plan option, and other measures. We will have to plan very carefully and be extremely disciplined to minimize the effects of the Affordable Care Act or our healthcare expense could rise significantly in 2014 even without any premium increases. Future premium increases are another cause for concern as the estimates we have been hearing range from the high single-digits to up to 50% per year.

In addition, we are concerned about the impact that the recent disruption of the financial markets will ultimately have on our liability for pensions for our employees. The Municipal Employees' Retirement System, our pension provider, will require the Library to increase its annual contribution in order to maintain benefits for current and future retirees. Our funding percentage is currently 108%, falling 4% from last year so it is steadily declining actuarially to 100% as employees near retirement age.

2012 Highlights

The Library completed an exciting year in 2012 when Jackson County residents checked out more items in print and digital formats than they had at any point in the past 25 years! Digital downloads (ebooks, audiobooks, music, etc.) now account for nearly 14% of all checkouts. At the same time, it is important to remember that nearly 86% of all checkouts continue to come from traditional physical formats such as books, CDs, DVDs, magazines, etc.

The Library's investment in transforming an old storage room into an attractive Media Room at the Carnegie Library has paid off handsomely with that location alone circulating an astonishing 30% of all DVDs and video games in the first quarter of 2013. With the addition of 8 Apple iMac computers, the Media Room now ranks an impressive 4th in overall computer usage throughout the district.

The Library also completed several other facilities upgrades in 2012, including renovating the lower lobby and back entrance of the Carnegie Library, and implementing long postponed repairs to its Administration building. We also expanded the parking lot at the Henrietta branch that has received much appreciation from the community there.

Management's Discussion and Analysis

Budget Priorities for 2013

After many years of planning, the Library will be moving forward with a major renovation and expansion of the Meijer branch which is the second heaviest used library location in the Jackson District Library system. The Library's board and administration have diligently saved money to fund this long overdue renovation that will incorporate several exciting new trends in public libraries. This project is estimated to cost \$2.7 million and will be funded entirely from reserves and community contributions. Construction is expected to be completed in May 2014. We will also invite proposals for a state of the art automated circulation system that would include self-checkout by patrons, collection security, ecommerce capabilities and inventory control.

In its 2013 budget, the Library's Board of Trustees decided to eliminate usage fees for DVDs and video games to remove any barriers to service that may have existed for Jackson County residents. This meant giving up an estimated \$65,000 collected in annual fees for these materials. We are absolutely delighted to report that circulation of DVDs and video games have increased tremendously in the first quarter of 2013, growing by 134% over the same period in 2012. Prompted by this unprecedented demand, the Library's Board approved an additional allocation of \$250,000 in early 2013 to fund additional purchases of DVDs and video games throughout the district.

The library world is faced with tremendous changes in the publishing industry. While digital downloads are exciting, they are also expensive and do not come with the same discounts that we have come to expect in the print world. Libraries have traditionally received attractive discounts on print books and other physical items, whereas we tend to pay full price, and sometimes a high premium, for digital content. Going forward, one of our biggest challenges will be to balance our limited budgetary resources on purchasing library materials in physical and digital formats in the right quantities to satisfy increased expectations from a diverse customer base.

The Jackson District Library's Board of Trustees will monitor the 2013 fiscal budget closely throughout the year to make sure that the Library continues to provide high quality services to Jackson County residents in the most cost effective manner, while continuing to invest in critical areas that will enhance patron satisfaction. The Board will scrutinize receipts from funding resources and reduce expenses in program and service areas as necessary to ensure that the Library maintains adequate reserves to address extraordinary or unanticipated issues.

Requests for Information

This financial report is designed to provide a general overview of the revenues it receives for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report should be addressed to the Director at 244 West Michigan Avenue, Jackson, Michigan 49201, phone 517-788-4099.

FINANCIAL STATEMENTS

JACKSON DISTRICT LIBRARY
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and cash equivalents	\$ 3,898,093
Investments	1,769,024
Accounts receivable - Penal fines	143,578
Prepaid expenses - Electronic content	28,497
Property taxes receivable	5,049,105
Capital assets, net	3,212,773
	<hr/>
Total assets	\$ 14,101,070
	<hr/>
LIABILITIES:	
Accounts payable	\$ 118,452
Accrued liabilities	6,777
Accrued payroll	109,872
Deferred property taxes	5,049,105
Deferred revenue:	
Grants - FINRA	24,266
Shared computerization agreement	136,093
Total current liabilities	5,444,565
	<hr/>
Noncurrent liabilities:	
Compensated absences	411,714
Net other post employment benefit payable	571,884
Total long-term liabilities	983,598
Total liabilities	6,428,163
	<hr/>
NET POSITION:	
Invested in capital assets, net of related debt	3,212,773
Restricted	167,359
Unrestricted	4,292,775
	<hr/>
Total net position	\$ 7,672,907
	<hr/>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTION/PROGRAMS	PROGRAM REVENUES				GOVERNMENTAL
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
General government	\$ 5,633,693	\$ 242,678	\$ 177,115	\$ 94,561	\$ (5,119,339)
GENERAL REVENUES:					
Property taxes					5,152,782
State shared revenues					71,766
Penal fines					624,113
Investment income					16,599
USF phone refunds					23,895
Other revenues					6,593
Total general revenues					5,895,748
Change in net assets					776,409
Net position - beginning of year					6,896,498
Net position - end of year					\$ 7,672,907

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2012

	GOVERNMENTAL FUND
ASSETS:	
Cash and cash equivalents	\$ 3,898,093
Investments	1,769,024
Accounts receivable-penal fines	143,578
Prepaid expenses	28,497
Property taxes receivable	5,049,105
	<hr/>
Total assets	\$ 10,888,297
	<hr/> <hr/>
LIABILITIES:	
Accounts payable	\$ 118,452
Accrued liabilities	6,777
Accrued payroll	109,872
Deferred property taxes	5,049,105
Deferred revenue:	
Grants	24,266
Shared computerization agreement	136,093
Total liabilities	5,444,565
	<hr/> <hr/>
FUND BALANCES:	
Restricted	180,729
Assigned	2,180,905
Unassigned	3,082,098
Total fund balance	5,443,732
	<hr/> <hr/>
Total liabilities and fund balance	\$ 10,888,297
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 5,443,732
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Amounts reported for governmental activities in the
statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet. Net of accumulated depreciation.	3,212,773
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	(411,714)
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Long-term liabilities for Other Post Employment Benefits (OPEB) obligations do not present a claim on current financial resources and are therefore not reported as fund liabilities.	<u>(571,884)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 7,672,907</u></u>
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The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	GOVERNMENTAL FUND
REVENUES	
Property taxes	\$ 5,152,782
State shared revenues	71,766
Coop reimbursement	34,555
Fines and fees	127,239
Video rentals	67,084
Penal fines	624,113
Investment income	16,599
Contributions and grants	271,676
USF phone refunds	23,895
Other revenues	20,393
Total revenues	<u>6,410,102</u>
EXPENDITURES	
Culture and recreation	<u>6,102,517</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	307,585
FUND BALANCES, BEGINNING OF YEAR	<u>5,136,147</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 5,443,732</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENT FUND	\$ 307,585
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their
estimated useful lives as depreciation:

Capital outlays	1,283,278
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Depreciation expense	(694,172)
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Increase in non-current liability for compensated absences payable
is an expense in the statement of activities but is not an expenditure
in the governmental funds.

	(41,307)
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Change in net OPEB obligations are reported in the statement of
activities as these future benefits are earned; because they do not
require the use of current resources they are not reported in the
fund financial statements.

	<u>(78,975)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 776,409</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**JACKSON DISTRICT LIBRARY
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**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Jackson District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Jackson District Library:

A. REPORTING ENTITY

The Jackson District Library (the “Library”) was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven members.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net position and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL
STATEMENT PRESENTATION (Continued)**

The Library reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

D: ASSETS, LIABILITIES, AND NET POSITION

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture exists between the Jackson District Library and the Jackson Community College to operate and maintain an automated library system to be shared between the two parties. Cash received from the Jackson Community College is restricted for the maintenance and operation of the system.

Capital Assets

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D: ASSETS, LIABILITIES, AND NET POSITION (Continued)

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Position.

Long-term Obligations

Long-term obligations (due more than one year from the balance sheet date) are reported as liabilities in the Statement of Net Position.

Fund Equity

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Library Board. A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment. The Library reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

E: ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year ended December 31, 2012, the Library incurred the following expenditures in the General Fund which were in excess of the amounts appropriated:

	Budget	Actual	Variance
Capital outlay - Computers	<u>\$ 51,000</u>	<u>\$ 134,343</u>	<u>\$ (83,343)</u>

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the Library can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name. Surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above are purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- (8) Investment pools organized under the Surplus Funds Investment Act 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act 121 of 1985.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the Library's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 454
Insured (FDIC)	994,629
Uninsured	<u>2,903,010</u>
Cash and cash equivalent	<u>\$ 3,898,093</u>

The Library's deposits are in accordance with statutory authority.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	<u>Cost</u>
Investment - Cash	\$ 1,012,532	\$ -	\$ -	\$ 1,012,532	\$ 1,012,532
Certificates of Deposit	745,800	-	-	745,800	745,800
Corporate equities	-	10,692	-	10,692	8,142
	<u>\$ 1,758,332</u>	<u>\$ 10,692</u>	<u>\$ -</u>	<u>\$ 1,769,024</u>	<u>\$ 1,766,474</u>

The corporate equities represent mutual funds donated directly to the Jackson District Library.

Investment and Deposit Risk

Interest Rate Risk: State law limits the allowable investments and the maturities of some of the investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk: State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require, and the Library does not have, a policy for custodial credit risk.

Concentration of Credit Risk: State law permits allowable investments, but does not limit concentration of credit risk.

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2011 District levy of 1.2593 mills on the assessed valuation of property located in the county as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the state at an estimated 50% of current market value.

The 2011 levy covers the Library's fiscal year of January 1, 2012 to December 31, 2012. The 2011 tax levy became a lien on properties on December 1, 2011, and was substantially collected in early 2012. Taxes became delinquent on March 1, 2012. Taxes receivable the subsequent year, as presented in the Library's financial statements, represent the next accounting period's uncollected taxes. Deferred taxes represent the subsequent years' taxes, both collected and uncollected, that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2012, for the 2013 fiscal year revenue.

NOTE 5: CAPITAL ASSETS

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books (including E-Books)	2 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer Equipment	5 to 7 years
Equipment	5 to 10 years
Buildings	40 years
Building Improvements	15 to 30 years

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Being Depreciated:				
Land	\$ 275,900	\$ -	\$ -	\$ 275,900
Buildings	615,410	48,911	-	664,321
Building Improvements	415,399	369,129	-	784,528
Books	2,272,339	298,780	421,409	2,149,710
E-Books	-	193,258	-	193,258
Audio Visual	676,096	200,829	143,509	733,416
Circulating Software	52,110	14,876	7,096	59,890
Computer Equipment	227,607	134,343	-	361,950
Equipment	145,761	23,152	-	168,913
Subtotal	<u>4,680,622</u>	<u>1,283,278</u>	<u>572,014</u>	<u>5,391,886</u>
Less Accumulated Depreciation for:				
Land	-	-	-	-
Buildings	77,755	15,386	-	93,141
Building Improvements	39,300	30,434	-	69,734
Books	1,379,268	354,802	421,409	1,312,661
E-Books (Amortization)	-	3,221	-	3,221
Audio Visual	393,470	187,504	143,509	437,465
Circulating Software	27,850	15,781	7,096	36,535
Computer Equipment	89,926	64,564	-	154,490
Equipment	49,386	22,480	-	71,866
Subtotal	<u>2,056,955</u>	<u>694,172</u>	<u>572,014</u>	<u>2,179,113</u>
Net Capital Assets Being Depreciated	<u>\$ 2,623,667</u>	<u>\$ 589,106</u>	<u>\$ -</u>	<u>\$ 3,212,773</u>

Under GASB 34 the Library was not required to retroactively report fixed assets. Accordingly the Library chose not to retroactively report fixed assets prior to the year ending December 31, 2003.

NOTE 6: COMPENSATED ABSENCES

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the Library after 2 years of service.

Unpaid leave at December 31, 2012, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The Library contributes to the Michigan Municipal Employees Retirement System. The “System”, an agent of multiple employer public employee retirement systems, acts as a common investment and administrative agent for units of local government in Michigan. The Library’s payroll for employees covered by the System for the year ended December 31, 2011 was \$1,354,136. Total gross pay for this period for all employees was \$2,707,747.

All full-time employees become a member of the System on the first day of employment, and are completely vested after 6 years of service. Normal retirement begins at age 50-60, depending on years of service. Service retirement allowances are based upon percentages ranging from one to two and one half percent of 5-year final average compensation depending on the benefit program selected, social security coverage, etc. District employees are required to contribute 4 percent of their annual salary to the System. The Library is required to contribute the remaining amounts necessary to fund the System based on an actuarial basis specified by statute.

Plan Assets

Information for the amount and types of securities included in plan assets is not available from the System. There are no loans from the System at December 31, 2011. Because these assets are held by the Michigan Municipal Employees’ Retirement System, they are not reported as assets of the Jackson District Library in these financial statements.

Funding Status and Progress

The “actuarial accrued liability” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits, is intended to (i) help users assess the plan’s funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2011, the date of the most recent actuarial valuation. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 4.5% per year, depending on age, and (d) the assumption that benefits will increase 2.5% annually after retirement for persons under Benefit E-2.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

At January 1, 2012, the assets in excess of the actuarial accrued liability for the Jackson District Library were \$452,027 determined as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 2,555,177
Terminated employees not yet receiving benefits	573,293
Non-vested terminated employees (pending refunds of accumulated member contributions)	24,039
Current employees:	
Accumulated employee contributions, including allocated investment income	531,617
Employer financed	1,922,500
	<hr/>
Total Actuarial Accrued Liability	5,606,626
Net Assets Available for Benefits, At Cost (Market value is \$5,024,529)	 <hr/>
	6,058,653
	<hr/>
Overfunded Actuarial Accrued Liability	\$ 452,027
	<hr/> <hr/>

During the year ended December 31, 2011, the plan for the Jackson District Library experienced a net change of \$(182,839) in the excess actuarial accrued liability. The combined change in the actuarial accrued liability resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

Contribution Requirements and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended December 31, 2011, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

During the year ended December 31, 2011, employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plans as of December 31, 2011. Employee deductions and employer payments are remitted to the plan monthly.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Ten -Year Trend Information

Historical trend information, as contained in the actuarial valuations for the periods indicated, is as follows:

Val. Date Dec. 31	Net Assets Available for Benefits	Actuarial Accrued Liabilities	Percent Funded	Overfunded Accrued Liabilities	Annual Covered Payroll
2002	\$ 4,172,080	\$ 2,899,437	144%	\$ 1,272,643	\$ 1,130,716
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149
2005	4,915,376	3,682,540	133%	1,232,836	1,249,477
2006	5,202,405	3,960,652	131%	1,241,753	1,479,170
2007	5,537,145	4,621,866	120%	915,279	1,418,766
2008	5,661,229	4,822,114	117%	839,115	1,402,714
2009	5,767,159	4,925,137	117%	842,022	1,454,733
2010	5,924,844	5,289,978	112%	634,866	1,370,870
2011	6,058,653	5,606,626	108%	452,027	1,354,136

Ten-year trend information presenting the MERS progress in accumulating sufficient assets to pay benefits when due is presented in the January 1, 2010 MERS Comprehensive Annual Report.

NOTE 8: JOINT VENTURE

The Library entered into a joint venture with Jackson Community College on September 25, 1991 to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson Community College at a 2/3 - 1/3 ratio, respectively. The total balance in the investment account is \$400,863 which is offset by a liability for Jackson Community College's portion of the \$136,093 at December 31, 2012.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9: RESERVED FUND BALANCE/RESTRICTED NET POSITION

The amounts reported in the Statement of Net Position identified as restricted net position are comprised of the following:

Restricted for shared computerization agreement	\$ 136,093
Restricted for grant agreement	24,266
Restricted for donor imposed restrictions	<u>7,000</u>
 Total Restricted Net Assets	 <u><u>\$ 167,359</u></u>

The amounts reported in the Governmental Funds Balance Sheet as restricted and assigned fund balance are comprised of the following:

Restricted for:	
Donor imposed	\$ 7,000
Grantor imposed	24,266
Shared computerization agreement	136,093
Encumbrances	<u>13,370</u>
Total restricted	<u><u>\$ 180,729</u></u>
 Assigned for:	
Technology	\$ 500,000
Capital outlay and improvements	<u>1,680,905</u>
Total assigned	<u><u>\$ 2,180,905</u></u>

NOTE 10: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Jackson District Library provides health insurance benefits for its retired employees and their beneficiaries through a trust established with the Municipal Employees' Retirement System of Michigan (MERS). The Library has no obligation to make contributions in advance of when the insurance premiums are due (in other words, this obligation can be financed on a "pay-as-you-go" basis). The Library has, however, made contributions to MERS (established pursuant to Public Act 199 of 1999) in an effort to advance fund these benefits.

For the year ended December 31, 2012, the Library has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2011. The valuation computes an annual required contribution (ARC), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortized any unfunded actuarial liabilities over a period not to exceed thirty years. The valuation's computed contribution and the actual 2012 funding are summarized on the following page.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Annual required contribution (recommended)	\$ 402,075
Amount contributed:	
Funding	<u>323,100</u>
Increase in net OPEB obligation	78,975
Prior unfunded liability	<u>492,909</u>
Unfunded liability at December 31, 2011	<u>\$ 571,884</u>

The funding progress of the Plan as of the most recent valuation date is as follows:

Valuation as of January 1, 2011:

Present value of future benefits	\$ 7,025,807
Actuarial value of assets	\$ 307,556
Actuarial accrued liability	\$ 4,775,225
Unfunded actuarial accrued liability	\$ 4,467,669

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funding status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections for benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

In the January 1, 2011 actuarial valuation, the actuarial assumptions include the following:

Discount rate	5.50%
Cost of living adjustment	3.00%
Return on assets	9.50%

Retirement provisions:

Age 60 with at least 12 years of service.

Current Retirees must pay 20% of their premium.

New Retirees will contribute 10% for 2011, 15% for 2012 and 20% for 2013 towards benefits.

Anyone hired after June 30, 2007 is not eligible for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenue				
Property taxes	\$ 5,240,000	\$ 5,153,000	\$ 5,152,782	\$ (218)
State shared revenues	71,000	71,766	71,766	-
Coop Reimbursement	26,503	34,555	34,555	-
Fines and fees	120,200	127,321	127,239	(82)
Video Rentals	55,000	67,084	67,084	-
Penal fines	270,000	625,000	624,113	(887)
Investment income	30,000	15,000	16,599	1,599
Contributions and grants	24,500	199,692	271,676	71,984
USF Phone refunds	15,000	30,000	23,895	(6,105)
Other revenues	2,000	21,088	20,393	(695)
Total Revenues	5,854,203	6,344,506	6,410,102	65,596
Expenditures				
Salaries and wages	2,867,004	2,867,004	2,857,265	9,739
Board per diem	6,000	4,000	3,960	40
Social security	219,326	219,326	210,833	8,493
Retirement	35,000	41,000	39,612	1,388
Health insurance	442,400	405,000	392,456	12,544
Retiree health care contribution	154,560	144,000	125,955	18,045
Life insurance	6,700	6,600	6,590	10
Unemployment	6,000	6,000	3,552	2,448
Director's conferences	6,000	4,000	3,651	349
Postage	20,000	20,000	17,413	2,587
Office supplies	30,000	25,000	21,585	3,415
Computer supplies	40,000	35,000	28,801	6,199
Printing/promotions/publicity	65,000	65,000	63,197	1,803
Technical processing supplies	17,000	17,000	8,687	8,313
Contracted services:				
Professional	40,000	30,000	25,436	4,564
Office equipment	30,000	25,000	19,400	5,600
Building/grounds	71,880	71,880	55,871	16,009
Software/upgrades	40,000	20,000	16,924	3,076
Other	69,507	69,507	61,512	7,995
Online computer library catalog	35,000	35,000	28,584	6,416
Shared computerization maintenance	51,632	51,632	48,636	2,996
Building and maintenance supply	25,500	19,500	18,798	702
Gifts and memorial materials	15,000	16,214	14,195	2,019
Staff development	25,000	25,000	22,745	2,255
Indirect State aid	35,500	35,883	35,883	-
Professional memberships and dues	7,950	7,409	7,409	-
Subtotal	4,361,959	4,265,955	4,138,950	127,005

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Expenditures (Continued)				
Interloan	650	700	684	16
Telephone	30,000	40,000	38,269	1,731
Internet access lines	75,000	46,892	46,892	-
Transportation-Fuel	11,000	11,000	9,885	1,115
Mileage reimbursement	20,000	20,000	15,800	4,200
Library programs	65,000	63,000	61,541	1,459
Bindery	1,000	1,000	982	18
Insurance and bonds	40,000	40,000	37,977	2,023
Utilities	120,000	110,000	106,764	3,236
Vehicle repairs and maintenance	4,000	4,000	3,288	712
Miscellaneous	4,000	6,000	4,597	1,403
Word wise	10,000	10,000	4,641	5,359
Staff recognition	1,250	1,300	-	1,300
Property tax refunds	25,000	60,000	45,808	14,192
Grant Projects	10,000	60,000	27,606	32,394
Books:				
Hardbound/Trade	356,000	356,000	290,951	65,049
Paperback	10,100	10,100	7,829	2,271
Reference	3,500	3,500	3,487	13
Periodicals	38,700	38,700	31,079	7,621
Audio-visual	208,200	208,200	200,829	7,371
Online databases	145,000	341,415	319,288	22,127
Electronic software	15,000	15,000	14,876	124
Building repairs and maintenance	75,000	40,000	37,358	2,642
Computer supplies	-	43,000	42,268	732
Office equipment	10,000	35,500	35,333	167
Strategic initiatives	50,000	-	-	-
Capital outlay:				
Library Equipment	10,000	24,500	23,152	1,348
Computers	75,000	51,000	134,343	(83,343)
Buildings	25,000	585,000	418,040	166,960
Total Expenditures	5,800,359	6,491,762	6,102,517	389,245
Net Change in Fund Balances	53,844	(147,256)	307,585	454,841
Fund Balance, beginning of year	5,136,147	5,136,147	5,136,147	-
Fund Balance, end of year	\$ 5,189,991	\$ 4,988,891	\$ 5,443,732	\$ 454,841

ADDITIONAL INFORMATION

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2012

EXPENSES:

Salaries and wages	\$ 2,857,265
Board per diem	3,960
Sick and vacation wages	41,307
Social security	210,833
Retirement	39,612
Health insurance	392,456
Retiree health care contribution	204,930
Life insurance	6,590
Unemployment	3,552
Director's conferences	3,651
Postage	17,413
Office supplies	21,585
Computer supplies	28,801
Printing/promotions/publicity	63,197
Technical processing supplies	8,687
Contracted services:	
Professional	25,436
Office equipment	19,400
Building/grounds	55,871
Software/upgrades	16,924
Other	61,512
Online computer library catalog	28,584
Shared computerization agreement	48,636
Building and maintenance supply	18,798
Gifts and memorial materials	14,195
Staff development	22,745
Professional memberships and dues	7,409
Indirect State aid	35,883
Interloan	684
Telephone	38,269
Internet access lines	46,892
Transportation-Fuel	9,885
Mileage reimbursement	15,800
Library programs	61,541
Bindery	982
Insurance and bonds	37,977
Utilities	106,764
Vehicle repairs and maintenance	3,288
Subtotal	<u>4,581,314</u>

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2012

EXPENSES: (Continued)

Miscellaneous	4,597
Word wise	4,641
Property tax refunds	45,808
Grant Projects	27,606
Reference materials	3,487
Periodicals	31,079
Online databases	126,030
Building repairs and maintenance	37,358
Computer supplies	42,268
Office equipment	35,333
Depreciation	694,172
Total expenditures	<u>5,633,693</u>

REVENUE:

Property taxes	5,152,782
State shared revenues	71,766
Coop reimbursement	34,555
Fines and fees	127,239
Video rentals	67,084
Penal fines	624,113
Investment income	16,599
Contributions and grants	271,676
USF Phone refunds	23,895
Other revenues	20,393
Total revenues	<u>6,410,102</u>

Excess of Revenues Over (Under) Expenditures	776,409
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Net Position - Beginning	<u>6,896,498</u>
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Net Position - Ending	<u><u>\$ 7,672,907</u></u>
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AICPA GOVERNMENTAL AUDIT
QUALITY CENTER

Board of Trustees
Jackson District Library
Jackson County, Michigan

We have audited the general purpose financial statements of the Jackson District Library for the year ended December 31, 2012, and have issued our report thereon dated April 16, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 23, 2013, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Jackson District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Jackson District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Audit Findings (Continued)

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were property taxes receivable/deferred property taxes and the depreciable lives of the capital assets.

We evaluated the calculation of the property taxes receivable and the lives of each of the assets to determine that they are being expensed over the proper period of time.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed a few audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Jackson District Library's reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 16, 2013.

Management Consultations with Other Independent Accountants

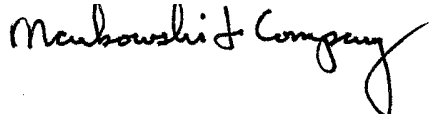
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the Jackson District Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Markowski & Company". The signature is written in a cursive, flowing style.

MARKOWSKI & COMPANY, CPAs

April 16, 2013

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR RD. • JACKSON • MICHIGAN • 49203

PHONE (517) 782-9351 • FAX (517) 782-0599

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FOUNDING PARTNER:

K. LAVERNE MARKOWSKI, C.P.A. (1961-2006)

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

AICPA GOVERNMENTAL AUDIT
QUALITY CENTER

Board of Trustees
Jackson District Library
Jackson County, Michigan

In planning and performing our audit of the financial statements of the governmental activities of the **Jackson District Library** as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Jackson District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson District Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Jackson District Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Jackson District Library's internal control to be significant deficiencies:

2012-01 – Segregation of Duties:

Because of the limited size of the Jackson District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. The Library has made significant changes to its internal control structure to strengthen controls where possible. We encourage the Library's management and board members to continue to exercise appropriate oversight to compensate for the lack of staff.

Board of Trustees
Jackson District Library
Jackson County, Michigan

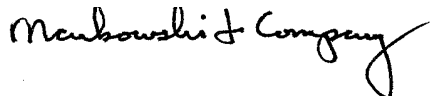
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2012-02 – Branch Cash Receipts:

The Library branches collect monies for contributions, fees and other charges. These amounts are currently reported to and reconciled by the finance department on an excel spreadsheet. The problem with this control is that the spreadsheet could be changed prior to submission. We recommend that the Library consider using cash registers or a software program to act in that capacity to further strengthen the collection of cash at the separate branches.

We also noted other matters which should be considered by the Board. These are reported in our separate Memorandum of Comments and Recommendations.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Markowski & Company". The signature is written in a cursive, flowing style.

Markowski & Company, CPAs
April 16, 2012

JACKSON DISTRICT LIBRARY
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

Budgeting Procedures

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amounts appropriated. As detailed in Note 2 of the financial statements, the Library incurred expenditure in excess of amounts appropriated. The Library does have procedures for monitoring and adjusting the budget. The amount expended in excess of appropriations resulted from the recording of a non-monetary grant.